



Since 1949

B U S I N E S S E X T E N S I O N B U R E A U
4802 Travis Houston, TX 77002 713-528-5568 FAX 713-528-1648 1-800-969-5568 www.bebtexas.com

RECEIVED

February 22, 2018

2018 FEB 28 A 11:06

U.S. Postal Regulatory Commission
901 New York Avenue NW, Suite 200
Washington, DC 20268-0001

POSTAL REGULATORY
COMMISSION
FEB 28 2018

RE: 10-Year Rate System Review
Docket No. RM2017-3
Order No. 4258

Dear Commissioners,

As the President of Business Extension Bureau (BEB) my livelihood depends on a sustainable mail industry. I am writing to express my strong opposition to the rate-making framework you have proposed as a result of your 10-year review of the CPI-based annual price cap established under the *Postal Accountability and Enhancement Act*. Last year, BEB entered 8,100,000 pieces of mail for our own customers and anonymously worked another 6,000,000 pieces of mail for some of our printing partners.

By the Postal Regulatory Commission's (PRC) conservative estimates, which assume a 2% CPI, this proposal would raise First-Class single-piece, presort and Marketing Mail letters by more than 27% and Periodicals and Marketing Mail flats by more than 40% over five years. Your proposal has encouraged us to carefully look at our budgets and our mail volume and accelerate migration to digital channels and alternate delivery methods. We have already opened a social media department and will be forced to expand and concentrate in those endeavors. For example, we have learned this year that Facebook has proved to be very effective in targeting a market in competition with mail and is much cheaper! Further postage increases will give an added push to our customers toward other marketing channels.

The PRC rate proposal would give the U.S. Postal Service use-it-or-lose-it authority, which it most certainly would use in full, to raise rates by at least 2% above the CPI for each market-dominant rate class for five years. Furthermore, the rate proposal allows an additional 1% for adhering to service standards and productivity targets. The proposed service standards and productivity target increases do not go far enough to encourage operational savings or achievement of service performance for the Postal Service. There will be no incentive to control costs, especially labor costs. It is still amazing to me that when the recession of 2008 hit, everyone in the private sector had to lay people off just to survive and cut costs, and yet the USPS did not. We believe postal increases should be based as an incentive by attaining service performance improvements defined and overseen by the PRC.

The PRC should understand the transformation we as mail owners and our mail supply partners have undergone and the way your pricing proposal will undermine the mail supply chain:

1. Rate increases by the Postal Service have been moderated by strategic investments made by the mailing industry to support increasingly complex mail preparation to qualify for the

most preferred postage rates through incentive programs such as commingling, co-palletization, co-mailing, and palletization, to name a few. Most mail and print service providers and logistics and transportation companies have made prudent capital investments to reduce costs and improve workflow and throughput efficiencies. The PRC proposal destroys the ROI assumption on which mail supply chain partners have made capital investments.

2. Margins for companies across the mail supply chain are declining and they have limited ability to absorb postage increases. According to the *Idealliance 2017 State of the Industry Report*, less than one-third of mail and print service providers surveyed have been able to raise prices even modestly (below the rate of CPI) over the past year, limiting cost pass through and putting intense pressure on margins. Here at BEB we have not raised prices in over 10 years. We look to new revenue streams and cost savers to maintain profitability.
3. Through cost containment efforts, mail and print service providers have helped to mitigate Postal Service rate increases experienced by mail owners. Mailpiece manufacturing has decreased while postal costs have increased to become now the largest portion of total expense of a mailpiece. In addition, today freight costs are projected to increase with major capacity issues, paper prices have recently increased, and ink suppliers have announced increases. The PRC should be mindful of the "total combined cost" of a mailpiece. Continuing the ever increasing postal cost will harm the stability of the mail supply chain.

The PRC's proposal provides the Postal Service broad pricing flexibility at a time when already tight margins and pricing uncertainty could easily destabilize the mail supply chain and encourage users of the mail to seek alternative channels for distribution.

The proposal is not in the best interests of the Postal Service or the mail supply chain as a whole. By damaging the mail supply chain, it also threatens the Postal Service's source of revenue. Furthermore, the current CPI cap system incents the Postal Service to reduce costs and increase efficiency—the first objective of the rate cap established by Congress. Now, as economists expect inflation to start to increase, is not the time to reduce the incentives for the Postal Service to become leaner and more efficient.

Finally, these massive rate increases are completely unnecessary. Of the Postal Service's accumulated \$59.113 billion loss, \$54.8 billion was due solely to the requirement that it prefund its financially healthy retiree health plan. Congressional action to eliminate this harmful requirement is what is needed, not excessive rate increases that will cripple this industry.

For these reasons, I urge you to reconsider your decision to impose the proposed rate framework, and instead focus on rate increases specifically tied to cost efficiencies of the Postal Service. As a business, we have fundamentally reduced our costs and created quality products and services to meet new and evolving customer needs and current business dynamics. Your proposed rule puts the onus for cost reduction on our business, not on the Postal Service. We would suggest that your work should follow the Hippocratic Oath: "First, do no harm." Your proposal would do fundamental and long-lasting harm to the mail supply chain and the viability of mail as a central channel for communication and commerce.

I have been in the mailing business for 28 years and have seen many postage increases. If we have large postage increases every year the USPS will be cutting their own throat along with

ours. Speaking as a mailing business owner in the private sector, should these changes be implemented, be assured that many private mailing partners of the USPS will close down, and they will not reopen. It is a horrible business model to be at the mercy of an obtuse government partner.

Regards,

A handwritten signature in blue ink, appearing to read "Ron Royall", with a stylized, cursive script.

Ron Royall
President
Business Extension Bureau
4802 Travis St
Houston, TX 77002